



10-2010

Factors Impacting Burley Outlook

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Factors Impacting Burley Outlook

- **Domestic Market**

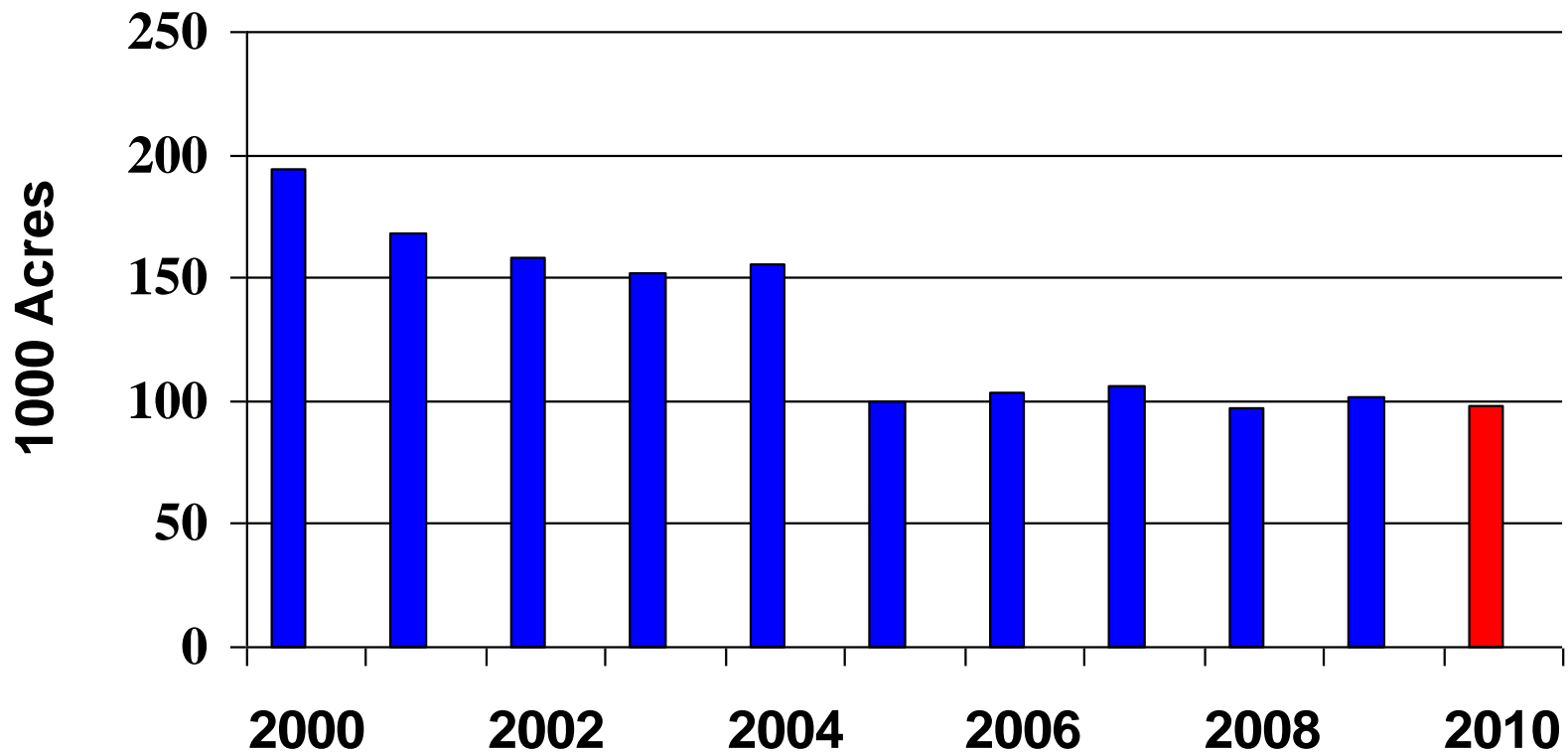
- Cigarette Consumption (Taxes, Smoking Restrictions, Health)
- Composition and Consumer Acceptance of Reduced Risk Tobacco Products
- FDA
- Inventory Adjustments
- Quality of the 2010 Crop

- **International Market**

- Value of the Dollar
- World Burley Production
- International Blending Regulations
- Inventory Adjustments
- Quality of the 2010 Crop

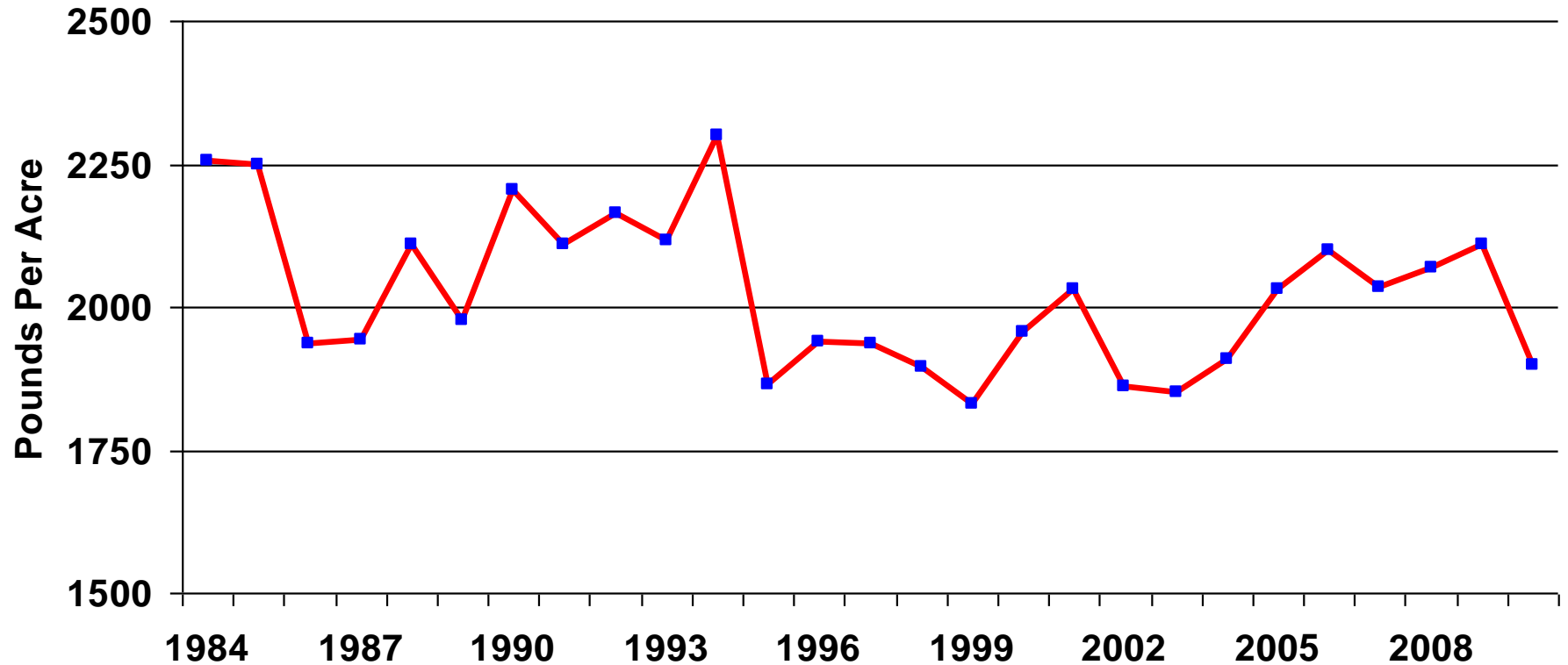
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US Burley Acres



Source: NASS/USDA

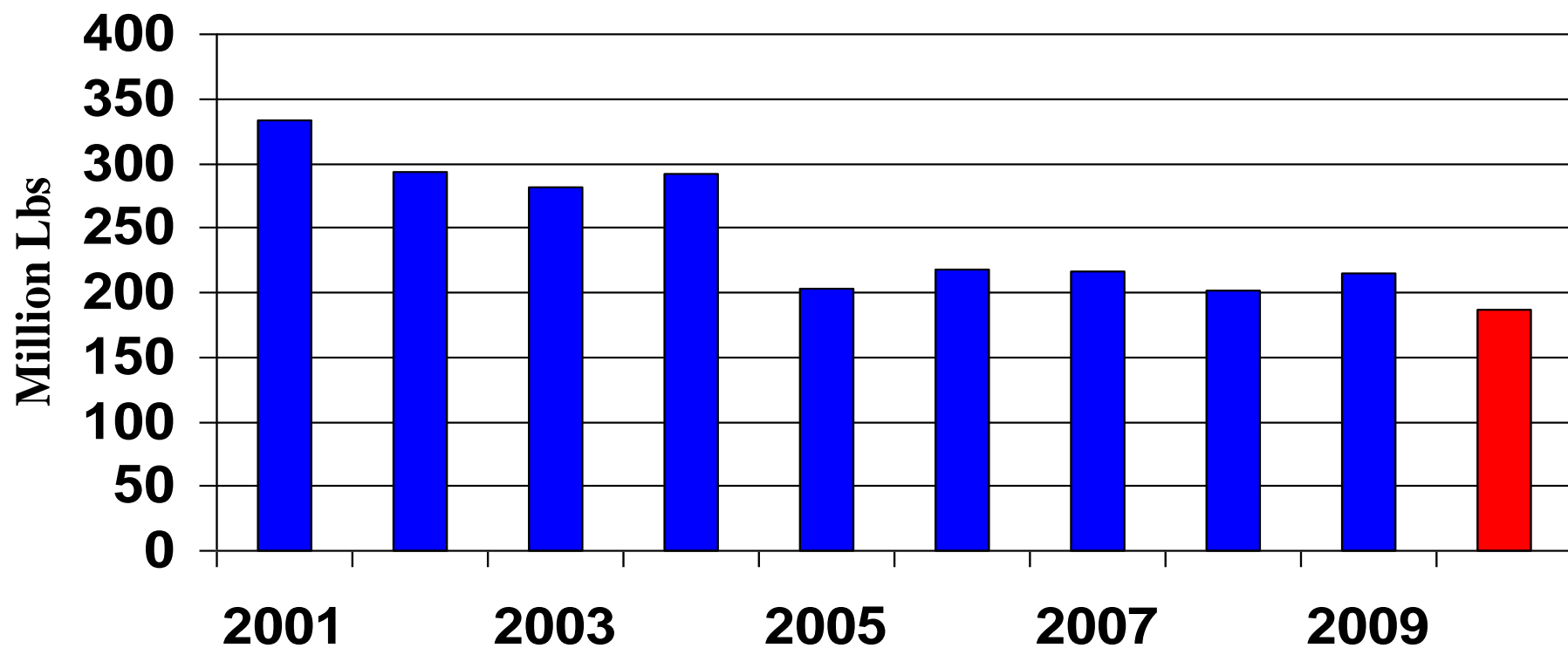
Average U.S. Burley Yields



Source: NASS/USDA

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U.S. Burley Production



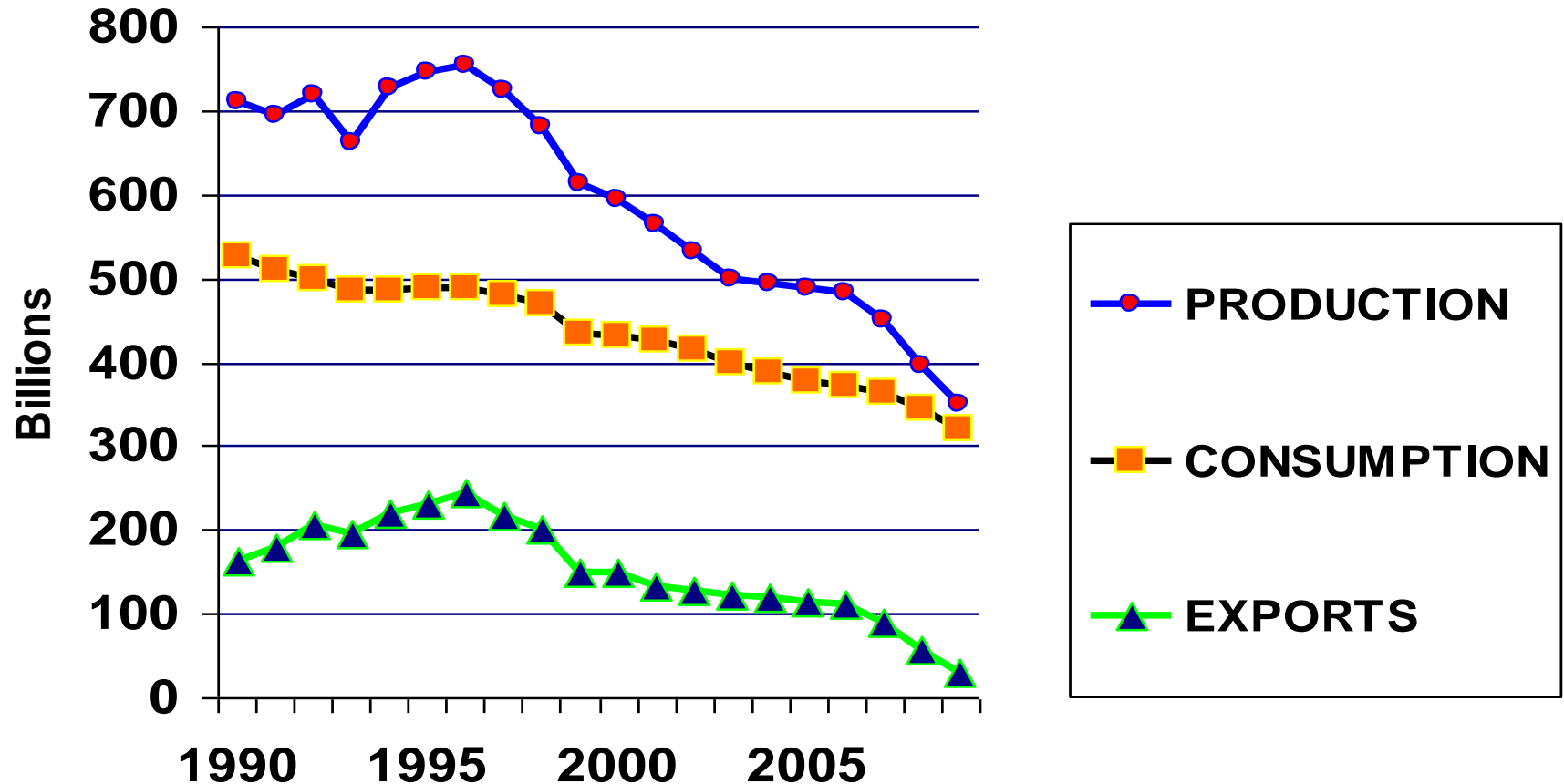
Source: NASS/USDA

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Factors Effecting the Market Demand for the 2010 Crop

- Domestic Cigarette Consumption/Production
- Inventory Adjustments
- Value of the Dollar
- World Burley Production
- Domestic and International Regulation
- Quality of the 2010 Crop

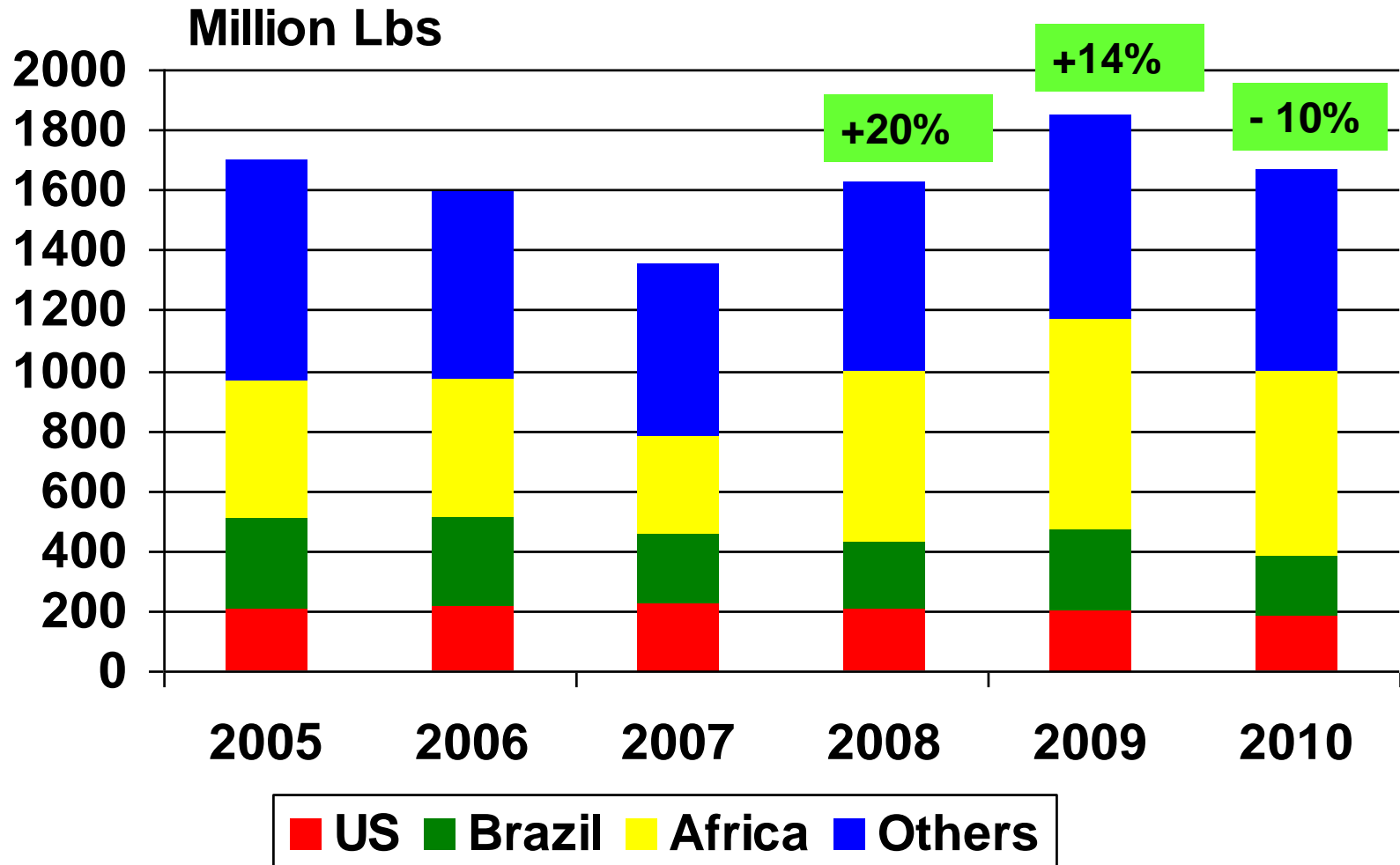
U.S. Cigarette Production, Consumption and Exports



Source: USDA/ERS/TMA

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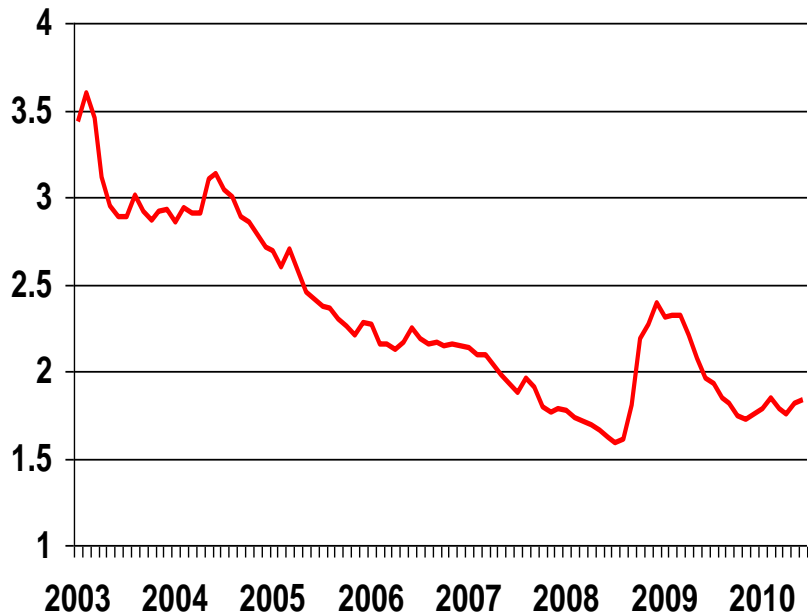
Total World Burley Production



Source: Universal Leaf, August 2010

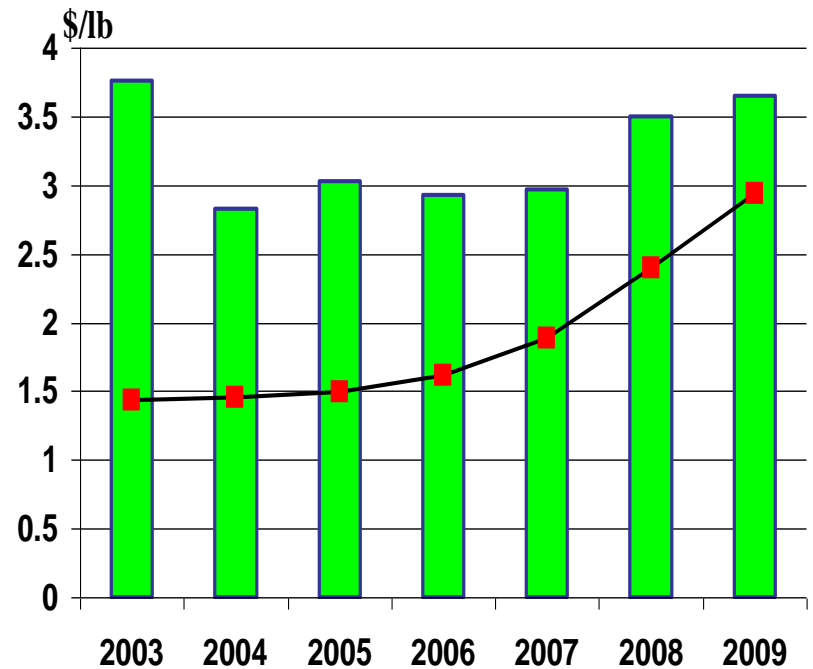
Price Competitiveness of U.S. Burley

Value of the U.S. Dollar vs Brazil



Source: St. Louis Federal Reserve Bank

U.S. Burley Export Value vs Brazilian Import Value

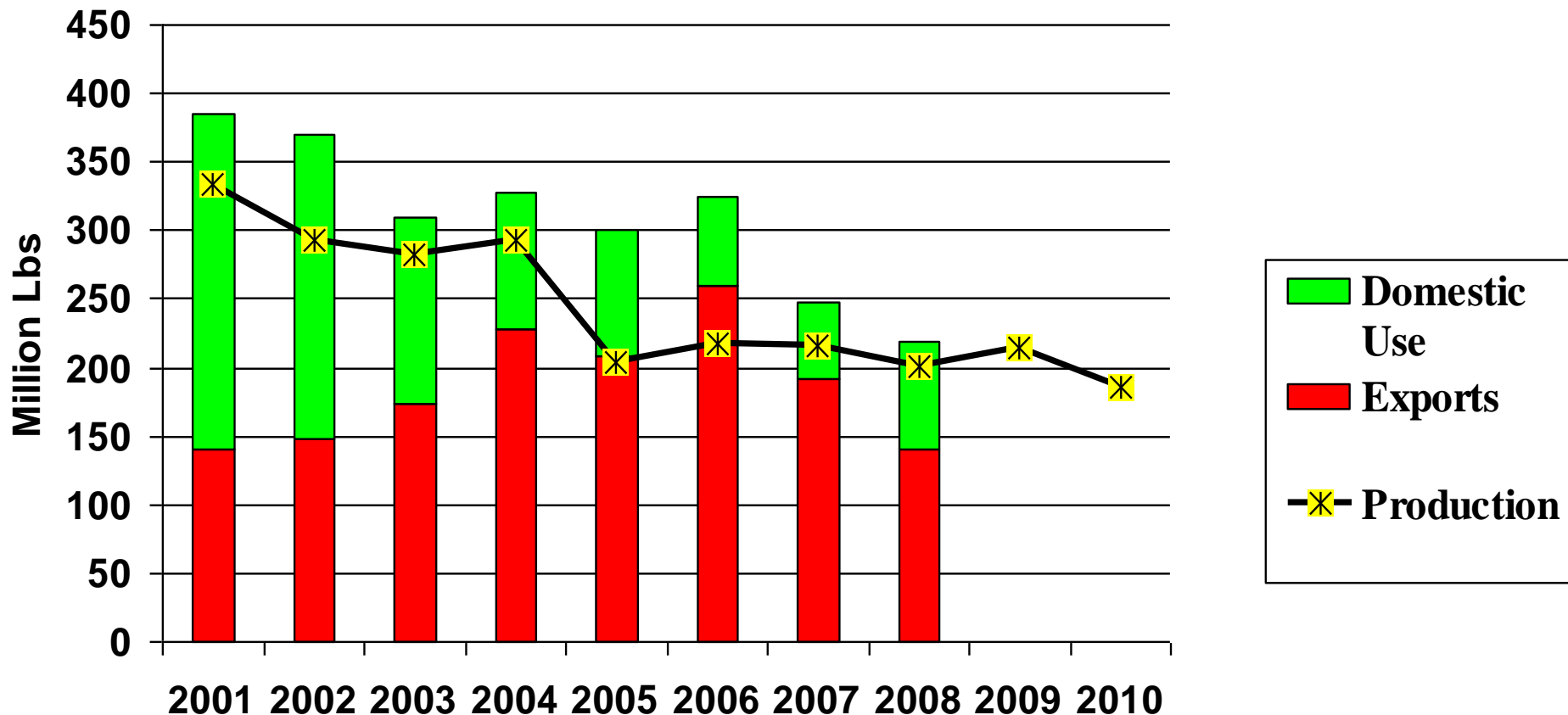


Source: USDA/TMA

U.S. - Brazil

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U.S. Burley Disappearance (Use) vs. Production



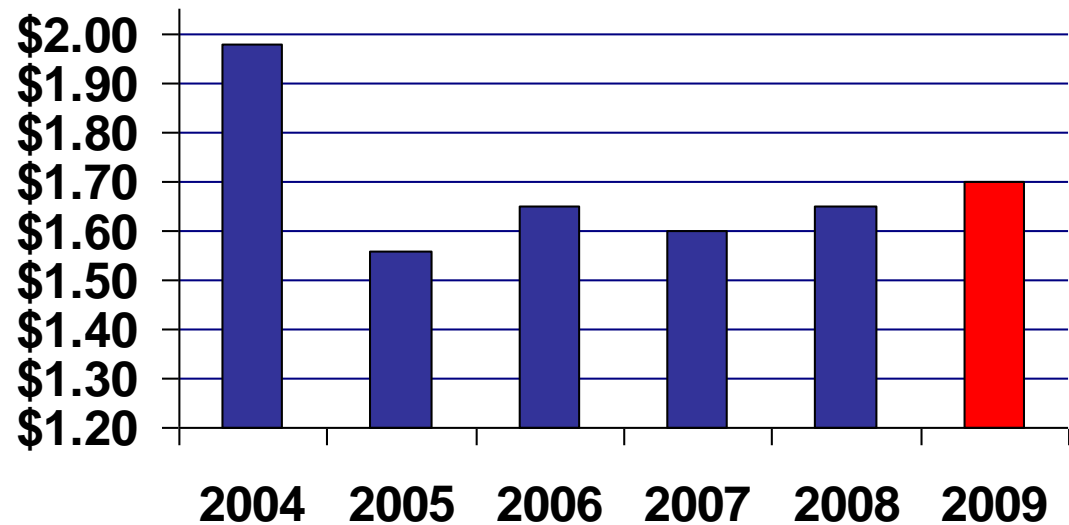
Source: NASS/ERS/AMS

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Factors Effecting the Market Demand for the 2010 Crop

- Domestic Cigarette Consumption/Production
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Average U.S. Burley Prices



2010 Contract Price Schedules (Various Companies)

Quality Grades		1	2	3	4	5
Company A (Big Bale)		\$1.86	\$1.79	\$1.61	-	-
Company B (Big Bale)		\$1.83	\$1.78	\$1.66	\$1.49	\$1.30
Company C		\$1.80	\$1.76	\$1.66	\$1.51	\$1.32
Company D		\$1.84	\$1.78	\$1.66	\$1.33	\$1.00

**Based on the following
grade distribution:**

T: 20%

B: 50%

C: 20%

X: 10%

**2010 contract
prices similar
to 2009 except
cuts in low
quality prices**

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Potential Three Tier Price Structure for 2010

1. High Quality (#1 and #2s) Contract Lbs
-- \$1.70s and \$1.80s
2. Medium/Low Quality (#3 and #4s) Contract Lbs and
High Quality Non-Contract Lbs
-- \$1.40s - \$1.60s
3. All Inferior Quality Lbs
-- <\$1.00/lb

Burley and Dark Tobacco Situation and Outlook for 2010

Will Snell, University of Kentucky



UK 2009 Burley Cost of Production Study (Detailed Cost Analysis on 20 Farms)

	Minimum	Maximum	Average
Number of Acres	5	176	62
Yield Per Acre	1551	3240	2354
Sales Price (\$/lb)	\$1.69	\$1.87	\$1.77
Gross Returns (\$/Ac)	\$2,668	\$6,071	\$4,163
Net Returns to Capital, Operator Labor and Management	(\$0.57)	\$0.74	\$0.27

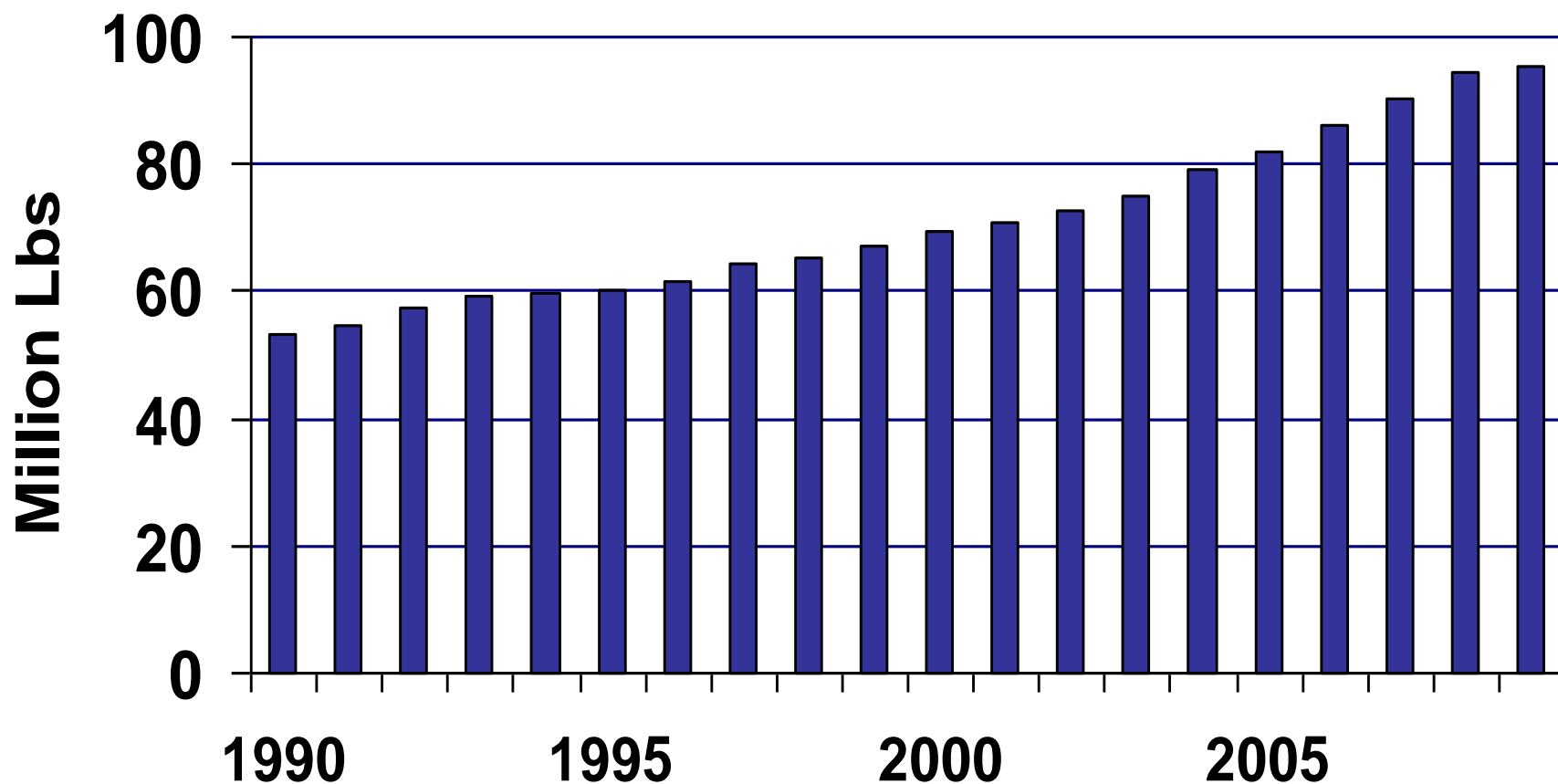
UK 2009 Burley Cost of Production Study

	"Small" Farms 5 to 33 acres N=6	"Medium" Farms 39 to 80 acres N=9	"Large" Farms 90 to 176 acres N=6
Average Pounds Per Acre (Lbs/ac)	2397.21	2367.33	2241.11
Average Price Per Pound (\$/lb)	\$1.79	\$1.77	\$1.75
Average Gross Returns Per acre (\$/ac)	\$4,258.45	\$4,194.79	\$3,915.39
Total Variable Costs	\$1.18	\$1.31	\$1.25
Return Above Variable Costs	\$0.60	\$0.45	\$0.49
Total Fixed Costs	\$0.30	\$0.20	\$0.17
TOTAL COSTS	\$1.48	\$1.51	\$1.42
Net Return to Capital, Operator Labor & Mgt	\$0.30	\$0.26	\$0.32

What About Dark Tobacco?



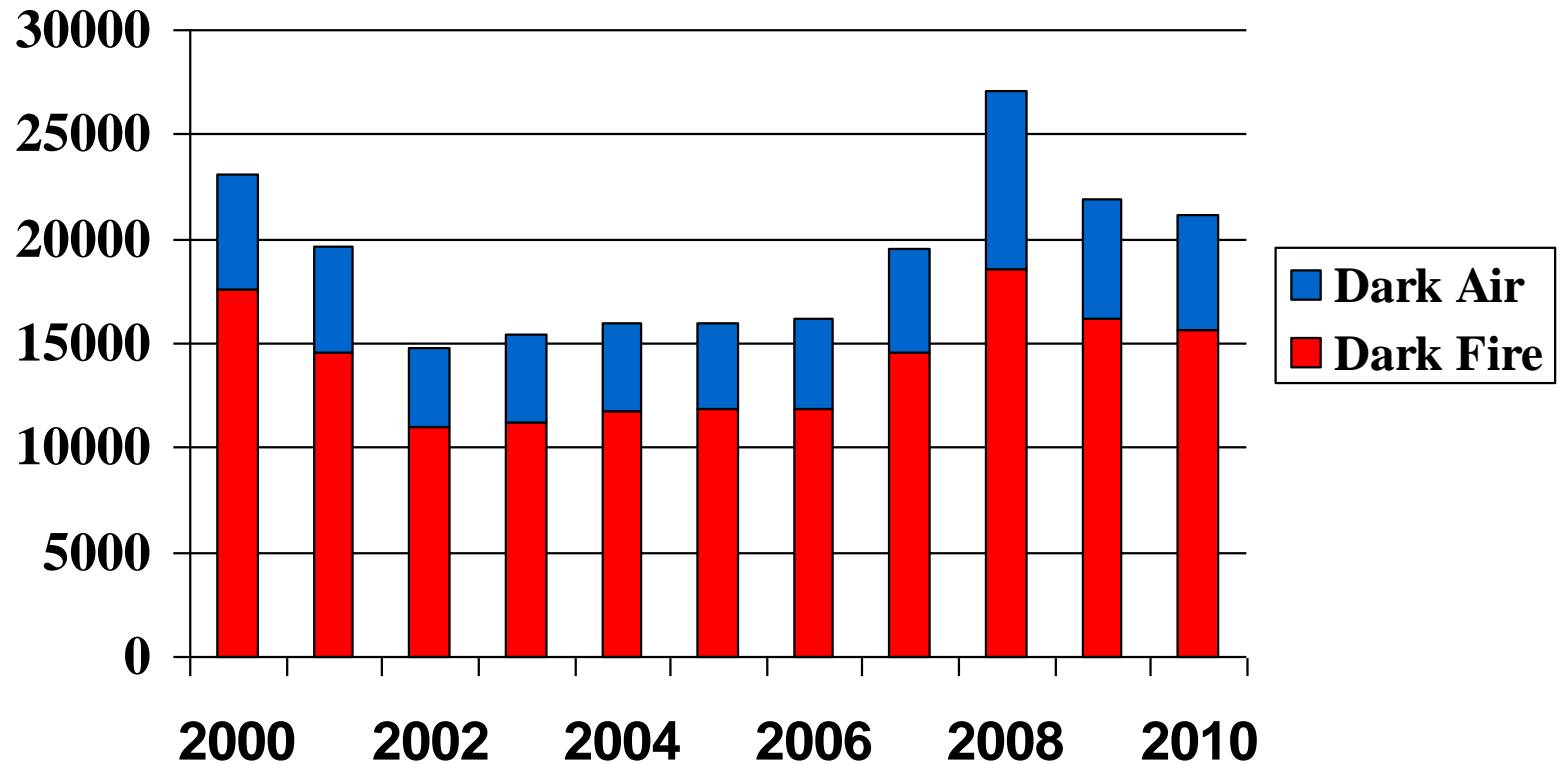
U.S. Snuff Tobacco Production



Source: TMA

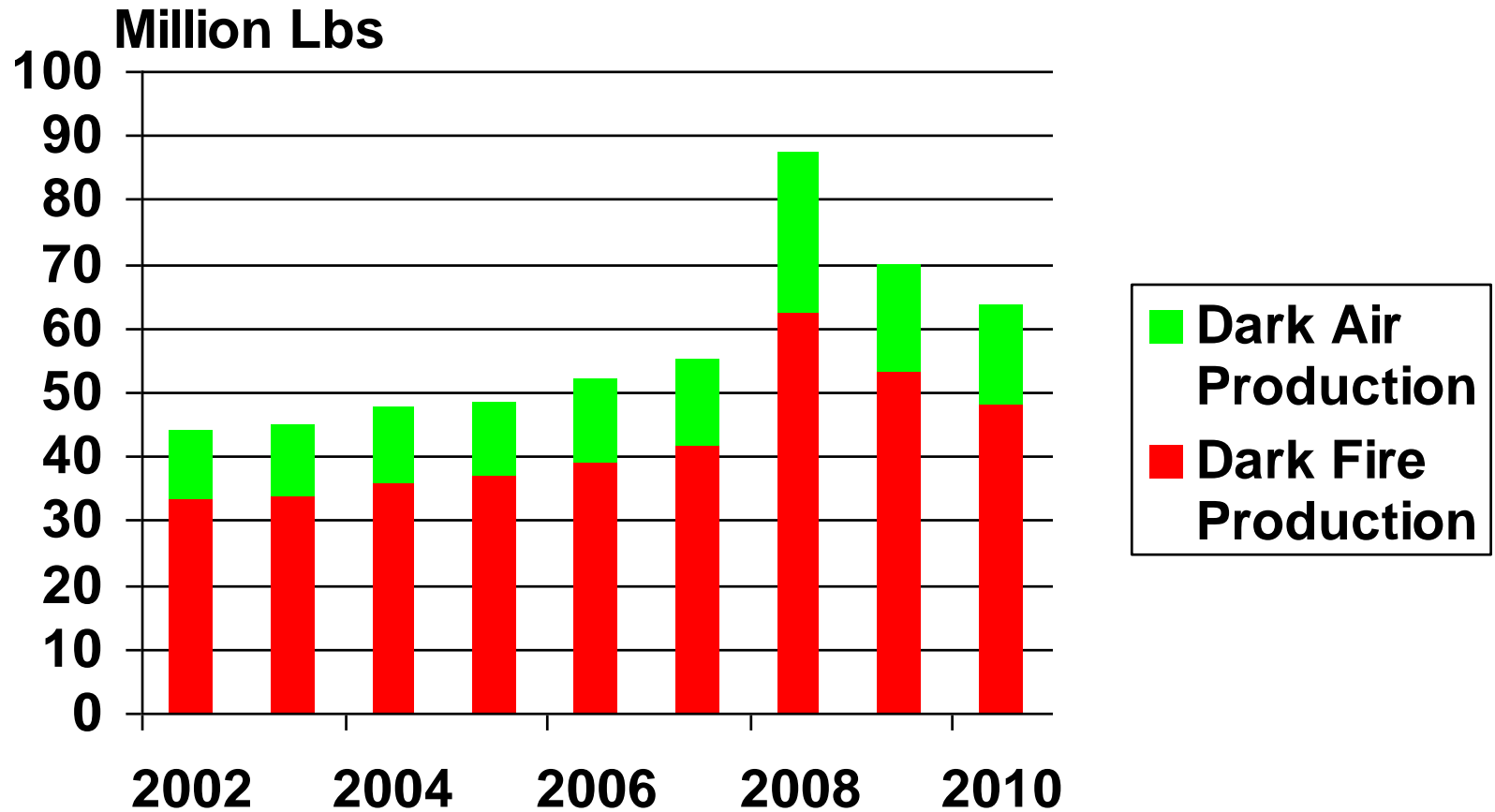
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US Dark Tobacco Acres



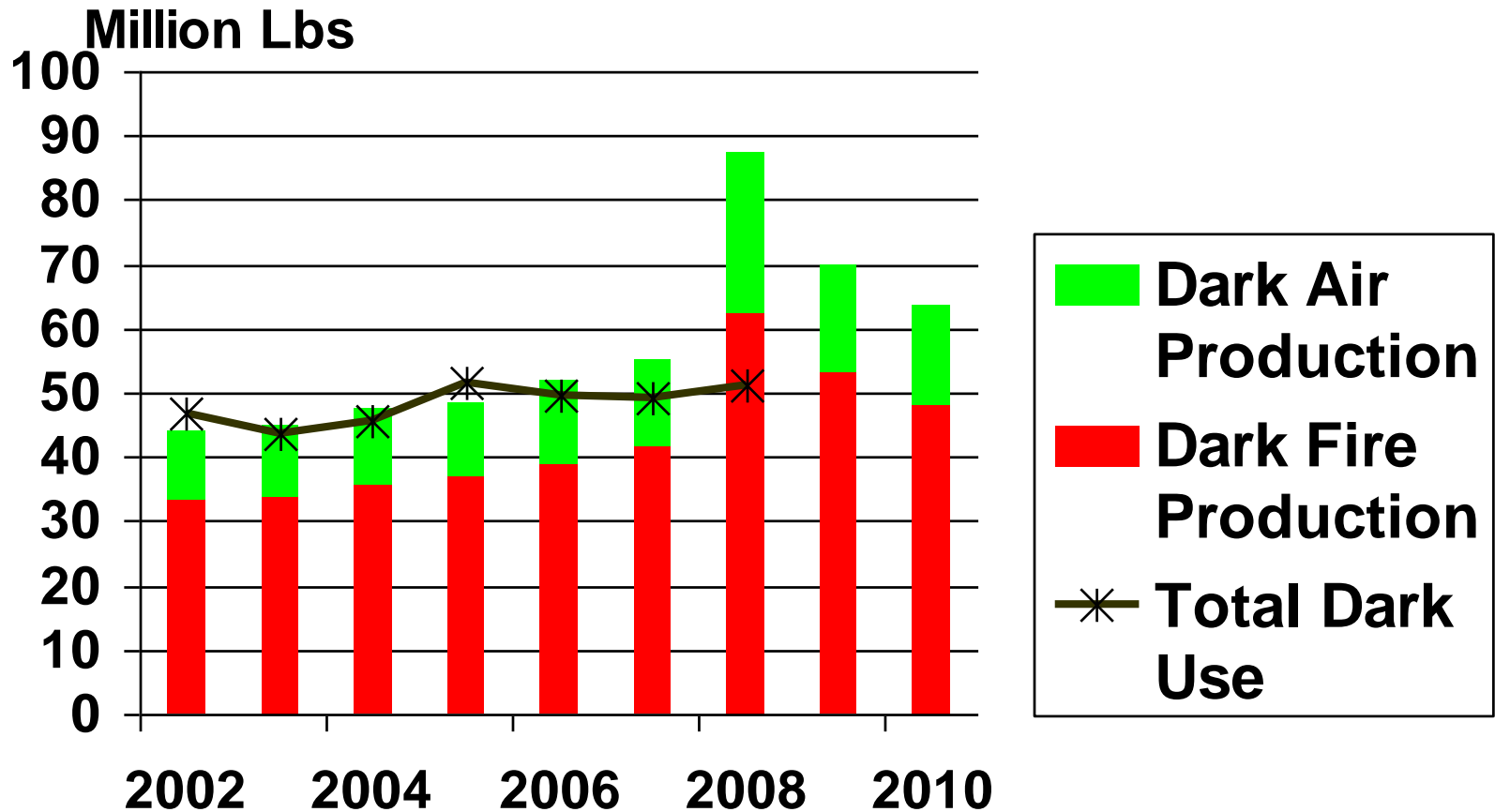
Source: NASS/USDA

U.S. Dark Tobacco Production



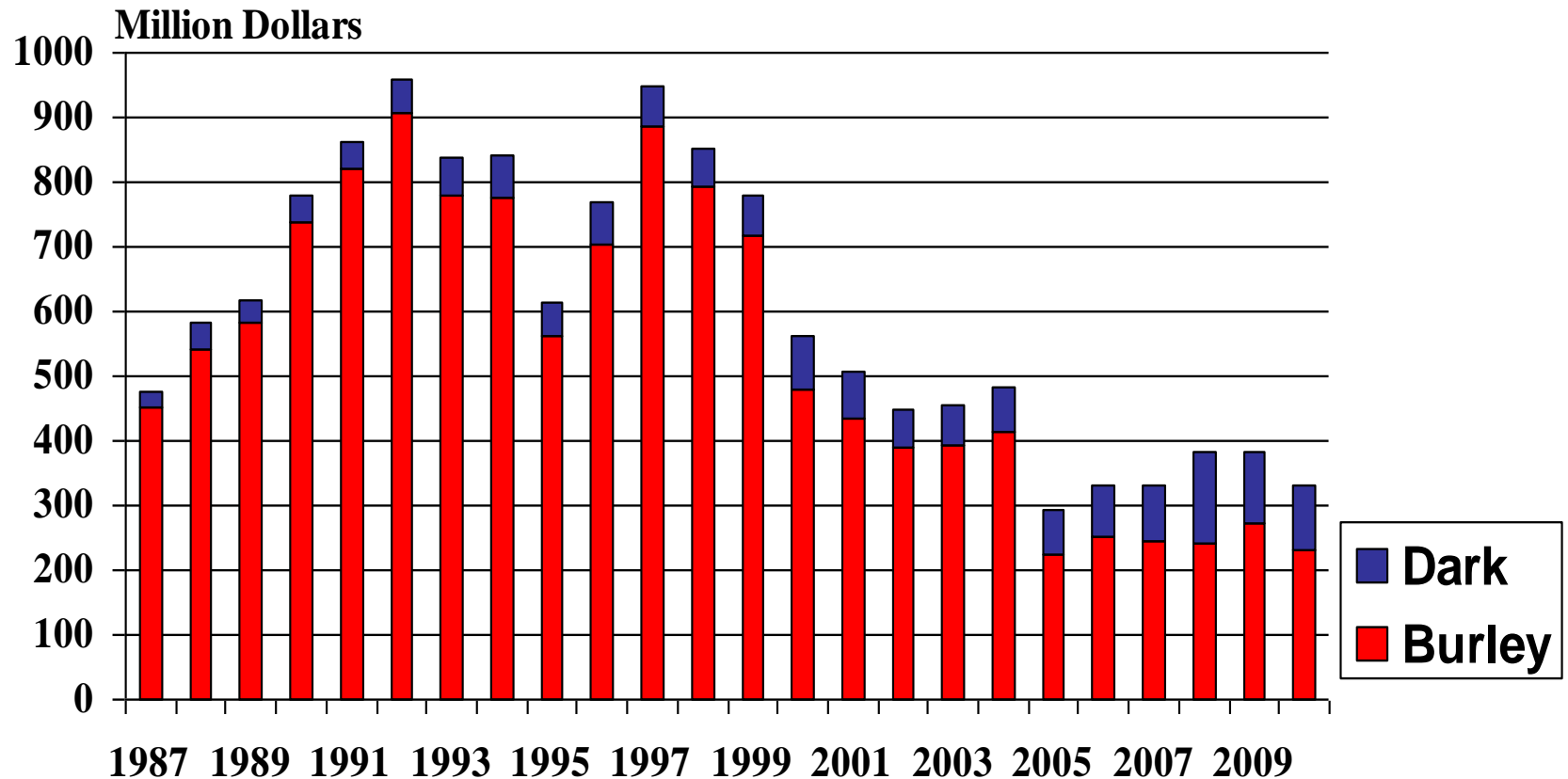
Source: NASS/USDA

U.S. Dark Tobacco Production vs. Use



Source: ERS/NASS/USDA

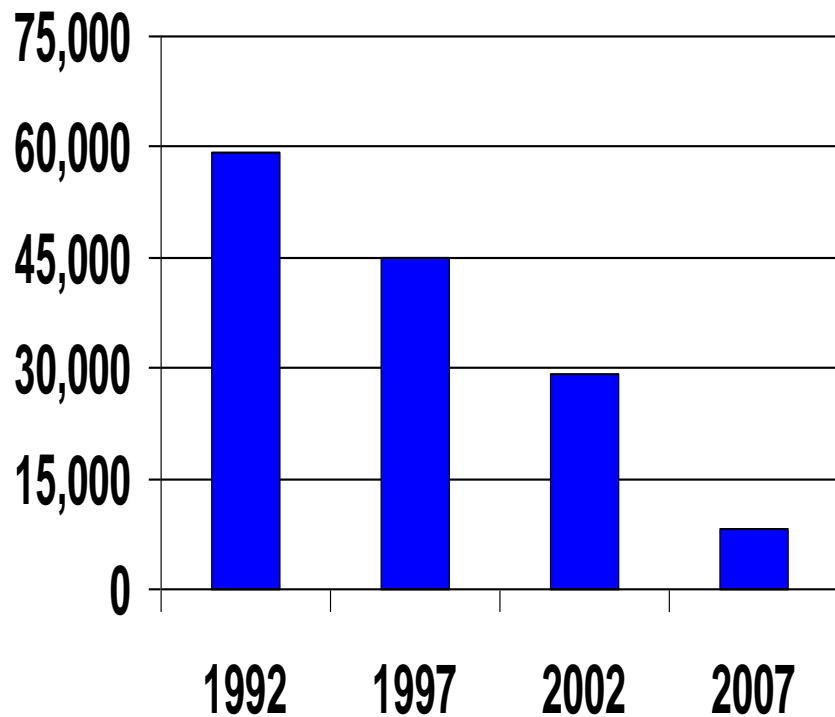
Value of Kentucky Tobacco Production



Source: Ky Ag Stats/NASS, 2010 Estimates by UK

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Number of Farms Growing Tobacco in KY



Source: USDA Ag Census



2007 Census: 8,113 tobacco farms in KY



2012: 80,000 acres at 20 acres/farm = 4000 farms